

Chairman's Statement
Sen. Tom Coburn, M.D. (R-OK)
The Effectiveness of the Small Business Administration
April 6, 2006

Before I get to the substance of this hearing, I would like to take a moment to address the events leading up to our consideration of the Small Business Administration. I have been not only surprised, but profoundly disappointed, by the negative reaction of some to the mere mention of this Subcommittee holding a hearing on the Small Business Administration. Before the hearing was publicly announced, I had heard from countless numbers of people asking what business we had looking at the SBA, or worse yet demanding that we not hold the hearing at all.

Unfortunately, it has come to my attention that some of this may have originated within the Small Business Administration itself. I have seen emails from SBA employees to organizations sent seemingly for the purpose of undermining our hearing before it even began. This type of illegal lobbying is unacceptable and will be dealt with accordingly.

I would like to state for the record that I do not believe Administrator Barreto, here with us today, had anything to do with these lobbying efforts. But, now that he is aware of these incidents, I will be following up with him to resolve the matter once and for all.

Contrary to what has been said, I believe that it is Congress' duty to do *more* oversight, not less, and this certainly includes the Small Business Administration. There is a perception out there that to be for the SBA is to be for small business, and to be against the SBA is to be against small business. While the SBA is supposed to help small business, the interests of small business and the interests of SBA are only synonymous if and when the SBA is achieving its mission effectively and efficiently. That's why there is no group that should be more interested in the effectiveness of SBA than small businesses, and advocating for that effectiveness IS advocating for their interests.

If we find out that the agency isn't operating effectively and we take action to try to fix the problem, which is, of course, our Constitutional duty, it's certainly not small business that would be hurt. The only constituencies that could be affected would be those who profit from business-as-usual at SBA. If SBA is broken, it's certainly not the small business sector that benefits from maintaining the status quo at the agency, but rather the bankers and big corporations who are currently profiting from SBA, among others.

Like every hearing this Subcommittee holds, this one will be fair, which means we are tough on everybody. Congressional hearings should not be pep rallies for business-as-usual. Small businesses deserve better.

INTRODUCTION

Now, more than ever, it is urgent to discharge our oversight duties in light of the fact that in 2007, this nation will spend more money on its federal government than at any time in our 230 year history. When all receipts are totaled, we will have spent nearly 3 trillion dollars on everything from national defense and health care to sculpture gardens and countless other earmarked projects – amounting to more than \$9,000 per person. Last year, after raiding Social Security, the federal government \$538 billion in borrowed money. This year, we again expect to borrow another \$500 billion to pay for all federal programs. All of this will be paid for, with interest, by our children and grandchildren.

There is almost no area of life left untouched by federal dollars and federal intrusion. Behind all of this out-of-control spending is the not-so-subtle notion that government never met a problem it

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couldn't solve. And so, when faced with a problem, Congress always does what it does best: spends your money.

FISCAL IMPACT OF SBA

Today, the Subcommittee will take a look at the Small Business Administration, of which portions are set to expire this year unless reauthorized by the Congress. SBA has a surprisingly large impact on the national economy as well as the federal fiscal outlook. Its budget for 2007 is \$624 million, yet it oversees a loan portfolio of nearly \$70 billion. Even for Congress \$70 billion is not pocket change, and it is even less so to taxpayers who are on the hook for that money should the bill come due.

More strikingly, though, SBA's impact on the budget is quite often much larger than its initial estimates to Congress. Between 2002-2006, SBA's beginning-of-year spending estimates have amounted to \$3.5 billion. But, after all receipts were totaled, SBA spent more than \$9.8 billion – nearly three times more than was initially estimated. And so, like every hearing we have on any agency, this hearing is intended to ask a very simple set of questions regarding what taxpayers are getting in return for SBA spending.

MISSION OF SBA

The SBA was established primarily to help small businesses, but it is its disaster relief functions that have made the news recently. Unlike many of SBA's critics in this area, I would like to commend SBA for a job well done in many respects following the hurricanes in the Gulf Coast. They were on the ground making many more loans than anyone thought they could do in a short period of time.

But SBA was also established as the agency to which small businesses can turn if they are unable make it on their own. Small businesses can turn to the SBA for help getting loans, help getting government contracts or help getting access to capital. SBA is also instrumental in representing the interests of small business throughout the process of issuing federal regulations. One particular area of concern for me, though, is that the federal agency created to help small businesses only helps *some* small businesses, not all. The unfortunate result is that small businesses that do not have the benefit SBA assistance are left to compete on their own against those that do. Injustice is bound to occur when the government picks winners and losers in the marketplace.

Advocates for the Small Business Administration may ask, "What's the harm in helping a few businesses down on their luck? After all, isn't it good for our economy and for a compassionate government to help failing businesses stay afloat?"

We're not here today to examine the existential questions of whether the government should be intervening in the already crowded marketplace. This subcommittee has had, and will continue to have, hearings on the role of the federal government. The fact is, SBA *does* exist to fulfill a mission, and it utilizes taxpayer dollars to do it. We're simply here to examine the evidence for whether that mission is being achieved.

THE PROBLEM

For example, the 7(a) program is designed to guarantee loans for businesses with such bad credit that no private lender will give them a loan. A business in this situation can turn to the federal government for a low-interest loan, courtesy of the American taxpayer. While a small fraction of

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businesses and private lending institutions profit reap the profits, these loans help the few at the expense of the many that don't get them.

The question today, though, is not whether we should help those companies with bad credit. Its whether our intervention results in a measurable impact on the small business sector of the economy that wouldn't have been realized without taxpayer help. In other words – is SBA intervention in the marketplace making a measurable difference in that marketplace, and if so, is it better for those they help and those they don't?

The most fundamental mission of the SBA, though, is to help *small* business. Unfortunately, though, small businesses are not only the only ones that get helped – big businesses are getting rich by taking advantage of SBA programs. In February of 2005, the SBA Inspector General reported that government contracts set aside for small businesses are actually going to *large* businesses with some frequency. For example, in 2002, the following companies all received millions of dollars each in small business awards.

- Northrop Grumman
- Hewlett-Packard
- General Dynamics
- Oracle

These are all great companies that are helping our vibrant economy and are doing billions of dollars of work for the federal government. But no one would argue that they are *small*. It is doubtful to me, though, that any of them are in great need government help, especially an agency that helps *small business*. How does the \$2 billion spent in FY2002 on these and other large companies help SBA achieve its mission?

Finally, I am deeply concerned about the high costs facing small business in complying with federal regulations. As a small business owner myself, I know first hand how hard it is to afford paying for all kinds of regulations saddled on small businesses. SBA reports that small business owners pay on average more than \$2,000 per employee every year than large companies for regulatory compliance. Each year the burden of regulation increases for small businesses.

Yet, this year, SBA plans to use less than 2% of its budget on regulatory assistance for small businesses. In fiscal year 2007, SBA plans to spend 15 times as much money on program administration than on regulatory assistance. I am concerned that this program gets far too little attention from the SBA, yet this is the one thing SBA does that truly effects *all* small business owners.

CONCLUSION

All of these examples bring me back to the central purpose of this hearing, which is to take a look at the effectiveness of the Small Business Administration at achieving its stated mission. By the end of this hearing, I hope to have answers to some important questions, such as:

- Does SBA intervention in the loan market improve outcomes for small businesses?
- Is the SBA rigorously evaluating its programs against measurable outcomes and reporting those results to Congress?
- How do SBA programs affect businesses not helped by the SBA?

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- Is that impact positive, negative or neutral?

I look forward to getting answers to these and other questions during today's hearing.